

## **Test Your Financial Literacy Quotient**

Every day, consumers conduct some type of financial transaction that requires an educated decision, whether you are shopping for a mortgage or auto loan; understanding and reconciling credit card statements and telephone bills; picking a gym; choosing a retirement plan; comparing health insurance policies; understanding their credit report and how it affects their ability to get credit and at what terms; or deciding whether to pay for a purchase with cash, a credit card or a debit card.

**Test your financial literacy with the quiz below; the answers follow.**

### **QUESTIONS**

**1) A credit report is:**

- a) A list of your financial assets and liabilities
- b) Your monthly credit card statement
- c) A loan and bill payment history
- d) Your credit line with your financial institution

**2) In terms of credit, what does APR stand for?**

- a) Annual Percentage Rate
- b) Annual Penalty Rate
- c) Annual Payment Rate
- d) Annual Payoff Rate

**3) Who insures your stocks in the stock market?**

- a) The Federal Deposit Insurance Corporation
- b) The Securities and Exchange Commission
- c) The U.S. Department of the Treasury
- d) No one

**4) True or False:** Federal law gives you three days to cancel the purchase of a new or used car from a dealer.

**5) True or False:** The type of car you own affects the price you pay for auto insurance.

**6) A reverse mortgage is:**

- a. a rising debt loan
- b. only available to someone 62 years of age or older
- c. generally not tied to income
- d. all of the above

- 7) **How many days does a creditor have to acknowledge your written complaint about a billing error?**  
a. 30 days  
b. 60 days  
c. 90 days  
d. 120 days
- 8) **If your credit card was lost or stolen and used to charge items you didn't authorize, you are responsible for what amount?**  
a. Up to \$50  
b. Up to \$100  
c. Up to \$500  
d. All unauthorized charges
- 9) **Negative financial information can stay on your credit report for?**  
a. Two years  
b. Five years  
c. Seven years  
d. Ten years
- 10) **What do “points” refer to in the home mortgage application process?**
- 11) **True or False:** Federal law requires that warranties be available for you to read before you buy a product.
- 12) **True or False:** Each state has a law that lets pharmacists substitute less expensive generic drugs for many brand name products.
13. **True or False:** By using unit pricing at the grocery store, you can easily compare the cost of any brand and any package size.
14. **True or False:** The recommended gasoline for most cars is regular octane.
15. **True or False:** All telephone numbers that begin with an “8” are toll-free.
16. **In financial transactions, a CD is a:**  
a. Certificate of Debt  
b. Certificate of Deposit  
c. Citizen's Deposit  
d. Certificate of Collateral
17. **True or False:** The “Rule of 72” tells you how long it will take to double your money.

## **ANSWERS**

**Answer 1: c. A credit report is a loan and bill payment history.**

It is kept by a credit bureau and used by financial institutions and other potential creditors to determine how likely it is that you will repay a future debt. Information in your credit report can affect your ability to get a job, a loan, and a credit card or insurance. (Source: Federal Trade Commission; [www.ftc.gov](http://www.ftc.gov))

**Answer 2: a. It stands for Annual Percentage Rate.**

The APR is a measure of the cost of credit, expressed as a yearly interest rate. Usually, the lower the APR is the better for you. (Source: Federal Trade Commission; [www.ftc.gov](http://www.ftc.gov))

**Answer 3: d. No one.**

Your investments in the stock market are not insured. Know the risks before investing in the stock market. (Source: Department of Financial Institutions, State of Wisconsin: <http://www.wdft.org/ym/kids/default.asp>)

**Answer 4: False.**

The law does not require dealers to give buyers a three-day right to cancel. The right to return the car in a few days for a refund exists only if the dealer grants this privilege to buyers, but it is discretionary. Dealers may describe the right to cancel as a “cooling off” period, a money back guarantee, or a “no questions asked” return policy. Before you purchase a new or used car from a dealer, ask about the dealer's return policy, get it in writing, and read it carefully. (Source: Federal Trade Commission: [www.ftc.gov](http://www.ftc.gov))

**Answer 5: True.**

Your premium is based in part on the car's sticker price, the cost to repair it, its overall safety record, and the likelihood of theft. Many insurers offer discounts for features that enhance safety or prevent theft. These include air bags, anti lock brakes, daytime running lights, and anti theft devices. Some states require insurers to give discounts for cars equipped with air bags or anti lock brakes. (Source: Insurance Information Institute: [www.iii.org](http://www.iii.org))

**Answer 6: d. All of the above.**

Reverse mortgages allow consumers over age 62 to convert the equity in their homes to cash while retaining ownership. With a reverse mortgage, you receive money from the lender and generally don't have to pay it back for as long as you live in your home. In return, the lender holds some C if not most or all C of your home's equity. (Source: Federal Trade Commission; [www.ftc.gov](http://www.ftc.gov) and AARP: [www.aarp.org](http://www.aarp.org))

**Answer 7: a. The creditor has 30 days.**

The creditor must acknowledge your complaint in writing within 30 days after receiving it, unless the problem has already been resolved. The creditor must resolve the dispute within two billing cycles (but not more than 90 days) after receiving your letter. (Source: Federal Trade Commission: [www.ftc.gov](http://www.ftc.gov))

**Answer 8: a. You are responsible for up to \$50.**

Your maximum liability, under federal law, for unauthorized use of your credit card is \$50. If you report the loss or theft before your credit card is used, the Fair Credit Billing Act says the card issuer cannot hold you responsible for any unauthorized charges. If a thief uses your card before you report them missing, the most you will owe for unauthorized charges is \$50 (per card). If the loss or theft involves your credit card number, but not the card itself, you have no liability for unauthorized use. (Source: Federal Trade Commission: [www.ftc.gov](http://www.ftc.gov))

**Answer 9: c. 7 years.**

Your maximum liability under federal law for unauthorized use of your credit card is \$50. If you report the loss or theft before your credit cards are used, the Fair Credit Billing Act says the card issuer cannot hold you responsible for any unauthorized charges. If a thief uses your cards before you report them missing, the most you will owe for unauthorized charges is \$50 per card. If the loss or theft involves your credit card number, but not the card itself, you have no liability for unauthorized use. (Source: Federal Trade Commission: [www.ftc.gov](http://www.ftc.gov))

**Answer 10: Points are fees you pay the lender for the loan.**

One point equals one percent of the loan amount. Points usually are paid in cash at closing. In some cases, you may borrow the money you need to pay points but doing so will increase the loan amount and your total costs. (Source: Federal Trade Commission: [www.ftc.gov](http://www.ftc.gov))

**Answer 11: True.**

Federal law requires that warranties be available for you to read before you buy a product, even when you're shopping by catalog or on the Internet. Coverage varies, so compare the extent of warranty coverage just as you compare style, price, and other characteristics of the product. (Source: Federal Trade Commission: [www.ftc.gov](http://www.ftc.gov))

**Answer 12: True.**

Each state has a law that lets pharmacists substitute less expensive generic drugs for many brand name products, and depending on your prescription needs, your savings could be significant. (Source: Federal Trade Commission; [www.ftc.gov](http://www.ftc.gov) and U.S. Food and Drug Administration: [www.fda.gov](http://www.fda.gov))

**Answer 13: True.**

Unit pricing is a tool for comparing prices. While the package price tells you how much you pay for a food item, the unit price tells you the price of each "unit" in a package. A unit can be an ounce, a pound, a quart, a square foot or an individual piece in a package. For example, the unit price shows you the cost of each ounce in a can of soup. The package price just tells you the price of the whole can. Unit pricing helps you compare costs of different brands and various sizes without doing arithmetic. But remember, compare only similar items. (Source: Food Marketing Institute: [www.fmi.org](http://www.fmi.org))

**Answer 14: True.**

In most cases, manufacturers recommend using a regular octane gasoline, and using a higher-octane gasoline than your owner's manual recommends offers absolutely no benefit. Unless your engine is knocking, buying higher-octane gasoline is a waste of money. Premium gas costs 15 to 20 cents more a gallon than regular does. That can add up to \$100 or more a year in extra costs. Studies indicate that altogether, drivers may be spending hundreds of millions of dollars each year for higher-octane gas than their cars need. (Source: Federal Trade Commission; [www.ftc.gov](http://www.ftc.gov) and AAA: [www.aaa.com](http://www.aaa.com))

**Answer 15: False.**

To date, only numbers that begin with 800, 888, 877 or 866 are free. And even then, there are some exceptions: Companies that provide audio entertainment or information services may charge for calls to 800, 888 and other toll free numbers, but only if they follow the Federal Trade Commission's Pay-Per-Call Rule. In addition, some area codes begin with an "8." For example, the area code 809 serves the Dominican Republic. If you dial this area code, you'll be charged international long distance rates. (Source: Federal Trade Commission; [www.ftc.gov](http://www.ftc.gov) and Federal Communications Commission: [www.fcc.gov](http://www.fcc.gov))

**Answer 16: b. In financial transactions, a CD is a Certificate of Deposit.**

A CD in this case is a type of savings account that earns a fixed interest rate over a specified period of time. (Source: Federal Reserve Bank of Dallas: <http://www.dallasfed.org>)

**Answer 17: True.**

The "Rule of 72" tells you how long it will take to double your money. To use the "Rule of 72," divide 72 by the interest rate you're getting. For example, if you deposit \$3,000 into an account with a 2% interest rate, divide 72 by two. The answer B 36 B tells you that you will double your money in 36 years; in 36 years, you will have \$6,000. (Source: Department of Financial Institutions, State of Wisconsin: <http://www.wdfi.org/ymm/kids/default.asp>)

For tips on managing your money wisely, [visit www.consumer.gov/ncpw](http://www.consumer.gov/ncpw)

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